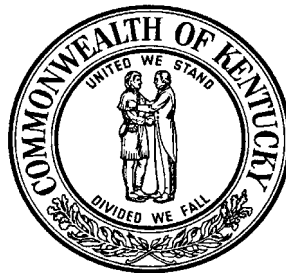


**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 27, 2004



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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Sandy Watkins, Henderson County Judge/Executive
Honorable Dennis W. Clary, Henderson County Sheriff
Members of the Henderson County Fiscal Court

The enclosed report prepared by Kem, Duguid & Associates, PSC, Certified Public Accountants, presents the Henderson County Sheriff's Settlement – 2003 Taxes as of April 27, 2004.

We engaged Kem, Duguid & Associates, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kem, Duguid & Associates, PSC evaluated the Henderson County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HENDERSON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

April 27, 2004

Kem, Duguid & Associates, PSC has completed the audit of the Sheriff's Settlement – 2003 Taxes for Henderson County Sheriff as of April 27, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$14,871,881 for the districts for taxes, retaining commissions of \$450,840 to operate the Sheriff's office. The Sheriff distributed taxes of \$14,380,853 to the districts for taxes. Refunds of \$819 are due to the Sheriff from the taxing districts.

Report Comment:

- Lacks Adequate Segregation of Duties

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Sandy Watkins, Henderson County Judge/Executive

Honorable Dennis W. Clary, Henderson County Sheriff

Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the Henderson County Sheriff's Settlement - 2003 Taxes as of April 27, 2004. This tax settlement is the responsibility of the Henderson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Henderson County Sheriff's taxes charged, credited, and paid as of April 27, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 10, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Sandy Watkins, Henderson County Judge/Executive

Honorable Dennis W. Clary, Henderson County Sheriff

Members of the Henderson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation of Duties

Respectfully submitted,

Kem, Duguid & Associates, P.S.C.
Kem, Duguid & Associates, PSC

Audit fieldwork completed -

June 10, 2005

HENDERSON COUNTY
DENNIS W. CLARY, COUNTY SHERIFF
SHERIFF'S SETTLEMENT – 2003 TAXES

April 27, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,462,317	\$ 1,335,219	\$ 6,640,114	\$ 1,997,795
Tangible Personal Property	229,356	211,993	953,862	1,159,173
Intangible Personal Property				291,258
Fire Protection	1,070			
Increases Through Exonerations	986	908	4,154	4,421
Franchise Corporation	144,177	132,340	611,029	
Additional Billings	29	26	131	39
Unmined Coal - 2003 Taxes	19,972	18,080	90,691	27,105
Oil and Gas Property Taxes	11,768	10,567	53,435	15,971
Limestone, Sand, and Mineral Reserves	26	23	118	35
Penalties	9,560	8,720	43,187	14,721
Adjusted to Sheriff's Receipt	(9)	27	(13)	1
Gross Chargeable to Sheriff	<u>\$ 1,879,252</u>	<u>\$ 1,717,903</u>	<u>\$ 8,396,708</u>	<u>\$ 3,510,519</u>
<u>Credits</u>				
Exonerations	\$ 22,050	\$ 20,310	92,936	\$ 86,930
Discounts	27,739	25,371	124,330	56,379
Delinquents:				
Real Estate	20,889	19,024	94,800	28,333
Tangible Personal Property	587	542	2,441	2,126
Intangible Personal Property				3,190
Unmined Coal - 2003 Taxes	234	210	1,061	317
Unmined Coal - 2003 Taxes	339	363	1,540	460
Total Credits	<u>\$ 71,838</u>	<u>\$ 65,820</u>	<u>\$ 317,108</u>	<u>\$ 177,735</u>
Taxes Collected	\$ 1,807,414	\$ 1,652,083	\$ 8,079,600	\$ 3,332,784
Less: Commissions *	<u>77,103</u>	<u>70,214</u>	<u>161,592</u>	<u>141,931</u>
Taxes Due	\$ 1,730,311	\$ 1,581,869	\$ 7,918,008	\$ 3,190,853
Taxes Paid	1,728,677	1,580,207	7,909,698	3,162,271
Refunds (Current and Prior Year)	<u>1,927</u>	<u>1,743</u>	<u>8,448</u>	<u>28,889</u>
Refunds Due Sheriff		**		
as of Completion of Fieldwork	<u>\$ (293)</u>	<u>\$ (81)</u>	<u>\$ (138)</u>	<u>\$ (307)</u>

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY
DENNIS W. CLARY, COUNTY SHERIFF
SHERIFF'S SETTLEMENT – 2003 TAXES
April 27, 2004
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	6,792,281
2% on	\$	8,079,600

** Special Taxing Districts:

Library District	\$	(80)
Health District		<u>(1)</u>
Refunds Due Sheriff	\$	<u><u>(81)</u></u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 27, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of November 30, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
April 27, 2004
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 24, 2003 through April 27, 2004.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2003. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2004 through June 30, 2004.

Note 4. Interest Income

The Henderson County Sheriff earned \$10,469 as interest income on taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of April 27, 2004, the Sheriff overpaid the school district \$182 in interest and owes \$184 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Henderson County Sheriff collected \$61,977 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Henderson County Sheriff collected \$2,364 of advertising costs and \$6,395 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

HENDERSON COUNTY
DENNIS W. CLARY, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of April 27, 2004

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness (1) the Sheriff should periodically compare the daily bank deposit to the daily collection report and then compare the daily checkout sheet to the receipts ledger and daily checkout sheet. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger, (2) the Sheriff should compare the monthly tax reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports and (3) the Sheriff should periodically compare the bank reconciliation to the balances in the checkbook. Any differences should be reconciled. The Sheriff could document this by initially the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

None

PRIOR YEAR:

The prior year report contained a comment and recommendation, which has been corrected.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$669,600 To Protect Deposits

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Sandy Watkins, Henderson County Judge/Executive
Honorable Dennis W. Clary, Henderson County Sheriff
Members of the Henderson County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the Henderson County Sheriff's Settlement - 2003 Taxes as of April 27, 2004, and have issued our report thereon dated June 10, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Henderson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be material weaknesses.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Henderson County Sheriff's Settlement – 2003 Taxes as of April 27, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Kem, Duguid & Associates, P.S.C.
Kem, Duguid & Associates, PSC

Audit fieldwork completed -
June 10, 2005

